

# Texas General Land Office 2013 Internal Audit Annual Report



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Deputy Commissioner of Internal Audit

# Table of Contents

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I.	<a href="#">Compliance with House Bill 16</a> .....	1
II.	<a href="#">Internal Audit Plan for Fiscal Year 2013</a> .....	1
III.	<a href="#">Consulting Engagements and Non-Audit Services Completed</a> .....	6
IV.	<a href="#">External Quality Assurance Review</a> .....	12
V.	<a href="#">Internal Audit Plan for Fiscal Year 2014</a> .....	15
VI.	<a href="#">External Audit Services Procured in Fiscal Year 2013</a> .....	20
VII.	<a href="#">Reporting Suspected Fraud and Abuse</a> .....	21



## **I. Compliance with House Bill 16:**

### **Posting the Internal Audit Plan, Internal Audit Report, and Other Audit Information on Internet Web-site**

The 83<sup>rd</sup> Legislature (Regular Session) passed House Bill (HB) 16, which amends the Internal Auditing Act, to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entities Internet Web site, at the time and in the manner provided by the SAO. Agencies and higher education institutions are also required to post a summary of actions taken to address issues raised by the audit plan or annual report.

In compliance with the mandate set forth by HB 16, the Internal Audit Office of the General Land Office and Veterans Land Board propose the following procedures for implementation regarding the agency's fiscal year 2014 audit plan and annual report:

1. Within 30 days of approval, the following documents will be posted to the General Land Office external and internal agency web-site:
  - a. Approved audit plan (for the upcoming/current fiscal year), as provided by the Texas Government Code, Section 2102.008.
  - b. Internal Audit Annual Report for the current/prior fiscal year, as required by the Texas Government Code, Section 2102.009.
2. As part of the annual audit follow-up process the following information will be posted via external and internal agency web-sites:
  - a. A report of all recommendations resulting from audits along with actions taken by the agency in response to the recommendations.
3. The 2014 Annual Internal Audit report will contain any additional summary information prescribed by the SAO.



## **II. Internal Audit Plan for Fiscal Year 2013**

<b>FY2013 AUDIT PLAN</b>			
<b>Audit Title</b>	<b>Audit Status</b>	<b>Report Date</b>	<b>Projected Budget (Hrs)</b>
TAC 202 – Risk Assessment Process	In Progress	TBD	400
Veterans Land Board – Type II Land Sales	Completed	May 2013	400
Agency Performance Measures	In Progress	TBD	400
Veterans Homes – Quality Control Measures	In Progress	TBD	500
CDBG Disaster Recovery Sub-Recipient Monitoring	Deleted	-	-
Royalty Audit Process	Deleted	-	500
Procurement Process	Postponed to 2014 Audit Plan	TBD	-
Relinquishment Act Land (RAL) Leasing	Deleted	-	-
Debt Portfolio Management	Deleted	-	-



<b>FY2013 FOLLOW-UP REVIEWS</b>		
<b>Audit Follow-Up Title</b>	<b>Program Area(s)</b>	<b>Division(s)</b>
Fixed Assets Equipment Processes	Administration Financial Management Information Systems Veterans Homes & Cemeteries program	Administrative Services Cash Management Business and Training Services Veterans Homes
ALPS Contract Management	Financial Management Information Systems	Administration and Special Projects Business Automation Services
Lease Sale Applications Database	Administration Energy Resources Information Systems	Administrative Services Mineral Leasing Business Automation Services Business and Training Services
Alamo – Review of Controls	Alamo Complex	Alamo Complex
Veterans Homes Pharmacy	Financial Management	Financial Subsidiary Operations
Federal Cost Allocation	Financial Management Coastal Resources	Financial Reporting & Accounting Budget & Planning Grant Programs & Support
Federal Compliance	Administration	Administrative Services
Payroll Process and Security	Financial Management	Budget, Planning and Payroll
Coastal Impact Assistance Program (CIAP )	Coastal Resources	Grant Programs & Support



FY2013 FOLLOW-UP REVIEWS		
Audit Follow-Up Title	Program Area(s)	Division(s)
Business Continuity/ Disaster Recovery	Administration	Administration
Comptroller Post Payment Audit	Financial Management Human Resources	Budget, Planning and Payroll Cash Management Administration and Special Projects Human Resources
HNTB Corporation Processes	Financial Management	Disaster Recovery – Program Disaster Recovery – Finance
Tyler Veterans Homes Construction	Financial Management Professional Services	Financial Reporting & Accounting Technical Support



<b>FY2013 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS</b>	
<b>Project Title</b>	<b>Program Area / Division</b>
Alamo Inventory Verification Project	Alamo Complex
Veterans Housing Improvement Program (VHIP) Quality Control Review for 4 <sup>th</sup> Quarter of 2012	Veterans Land and Housing Program
Agency Business Process Documentation Project	Agency Wide
Business Continuity/ Disaster Recovery Testing Assistance	Information Systems / Administration
Annual Risk Assessment and Internal Audit Plan	Internal Audit
Annual Report on Internal Audit	Internal Audit
Annual Report on the Internal Audit Quality Assurance and Improvement Program	Internal Audit
Special Projects/Investigations	Internal Audit
Liaison for external audits and oversight entities	Internal Audit
Management Assistance & Other	Internal Audit



### III. Consulting Engagements and Non-Audit Services Completed

#### FY 2013 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
Alamo Inventory Verification Project – DRT Library	Alamo Complex	TBD
<p><u>Objective:</u> Conducted a review of documents provided by the Daughters of the Republic of Texas (DRT) regarding inventoried items and various archives of the Alamo Library. A review of the achieves was conducted in order to evaluate whether the documents provided indicated the holdings were owned by the DRT or the State of Texas.</p> <p><u>Conclusion:</u> The agency's executive management team was provided with information useful in working with DRT to arrive at a mutual agreement concerning the library holdings.</p>		

Project Title	Program Area/Division	Report Date(s)
Veterans Home Improvement Quality Review	Veterans Land Board (VLB) / Loan Operations	January 17, 2013
<p><u>Objective:</u> Conducted a Quality Control Review as required by the U.S. Department of Housing and Urban Development (HUD) Quality Control Plan guidelines for Veteran Home Improvement Loans provided by the Veterans Land Board during fiscal year 2012.</p> <p><u>Conclusion:</u> A Quality Control Review was performed to ensure compliance with HUD requirements, and recommended improvements to enhance the quality of the loans files were communicated to management.</p>		





## **FY 2013 CONSULTING AND NON-AUDIT SERVICES**

<b>Project Title</b>	<b>Program Area/Division</b>	<b>Report Date(s)</b>
Business Continuity/ Disaster Recovery Testing Assistance	Administration / Information Systems	August 23, 2013

**Objective:**

Assisted with an agency risk management exercise of the GLO's Business Continuity Plan. The scenario involved a fire occurring in the cafeteria of the SFA Building, which resulted in the building being uninhabitable for two weeks. From the incident, thirteen events occurred that participants at the exercise had to work through in line with the agency's business continuity plan.

**Conclusion:**

The exercise was successful and provided participants the opportunity to determine resources needed to resume agency operations in an effective and efficient manner. Internal Audit's review identified opportunities to improve the exercise process and an expectation gap between the participants and Information Systems on the timeframe for restoring the availability of operational data.

<b>Project Title</b>	<b>Program Area/Division</b>	<b>Report Date(s)</b>
Chief Financial Officer Transition Assistance	Financial Management	January 29, 2013

**Objective:**

Provided information and assistance for the transition of the new Chief Financial Officer (CFO) of the agency.

**Conclusion:**

The new Chief Financial Officer was provided with knowledge that was useful in carrying out his new responsibilities. This package included information on internal and external audits, special projects, and report on our follow up of prior audit issues.



## FY 2013 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
Coastal Resources Management Assistance	Coastal Resources	N/A

Objective:

Provided informal training and relevant documents to a Coastal Resources employee about federal grant requirements for subrecipient monitoring.

Conclusion:

The employee was provided with information needed to implement a subrecipient monitoring process for Coastal grants that complies with federal law.

Project Title	Program Area/Division	Report Date(s)
Disaster Recovery – Management Assistance	Disaster Recovery	May 31, 2013

Objective:

To provide feedback to the Disaster Recovery Program on proposed changes in procedures for processing non-housing and vendor payments.

Conclusion:

The Disaster Recovery Program accounting staff was provided with information that it could use in streamlining its processing without exposing the program to increased risks of fraud, waste, and non-compliance with Federal regulations.



## **FY 2013 CONSULTING AND NON-AUDIT SERVICES**

<b>Project Title</b>	<b>Program Area/Division</b>	<b>Report Date(s)</b>
Internal Audit Quality Assurance and Improvement Program	Internal Audit	March 22, 2013

**Objective:**

To allow Internal Audit management to perform on-going monitoring of the quality assurance process of the division and provide agency management the results of the assessment.

**Conclusion:**

The Internal Audit Division maintains an ongoing Quality Assurance and Improvement Program and performs continuous monitoring of the quality of internal audit activities.

<b>Project Title</b>	<b>Program Area/Division</b>	<b>Report Date(s)</b>
Alamo Inventory Verification Project – Alamo Mission Chapter of the DRT	Alamo Complex	March 27, 2013

**Objective:**

Conducted a review of documents provided by the Alamo Mission Chapter of the DRT to evaluate whether the documents indicated certain assets, mostly furniture and artwork, were owned by The Mission Chapter or the state.

**Conclusion:**

The agency's executive management team used the results of the review to enter into an agreement with AMC about the ownership of specific assets and how to proceed if additional documents are discovered.



## **FY 2013 CONSULTING AND NON-AUDIT SERVICES**

<b>Project Title</b>	<b>Program Area/Division</b>	<b>Report Date(s)</b>
Complaint Responses and Investigations	Internal Audit	Various
<p><u>Objective:</u> Conducted investigations in response to public complaints received regarding various agency programs.</p> <p><u>Conclusion:</u> Investigations were conducted in order to substantiate the allegations presented by the complaints received.</p>		

<b>Project Title</b>	<b>Program Area/Division</b>	<b>Report Date(s)</b>
Liaison Activities – External Audits and Oversight Entities	Internal Audit / Agency Wide	Various
<p><u>Objective:</u> To assist agency management with the effective discharge of its responsibilities related to fulfilling requests for assistance or information regarding various external or oversight projects.</p> <p><u>Conclusion:</u> Assistance and information was provided, in coordination with management, to complete external audits, reviews and oversight projects.</p>		



## **FY 2013 CONSULTING AND NON-AUDIT SERVICES**

<b>Project Title</b>	<b>Program Area/Division</b>	<b>Report Date(s)</b>
Feedback on Proposed System Implementation for Type I Land Sales	Veterans Land and Housing Programs	TBD

**Objective:**

Provide VLB staff with feedback on a proposed system implementation for Type I Land Sales.

**Conclusion:**

VLB staff was provided with information on risks, which is helpful in making decisions about what controls to include in the new system.



#### **IV. External Quality Assurance Review**

**REPORT ON THE  
EXTERNAL QUALITY ASSURANCE REVIEW  
OF THE GENERAL LAND OFFICE  
INTERNAL AUDIT DEPARTMENT**

**June, 2012**



**PERFORMED BY**

**Karin Hill, CIA, CGAP, CRMA  
Chief Internal Auditor  
Texas Juvenile Justice Department**

**Jaye Stepp, CPA, CIA, CGAP  
Director of Internal Audit  
Texas School for the Blind and Visually Impaired**



GENERAL LAND OFFICE - INTERNAL AUDIT DEPARTMENT  
EXTERNAL QUALITY ASSURANCE REVIEW – June 2012

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### OVERALL OPINION


Based on the information received and evaluated during this external quality assurance review, it is our opinion that the General Land Office Internal Audit Department “fully complies” with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*, the United States Government Accountability Office’s (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (*Texas Government Code*, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

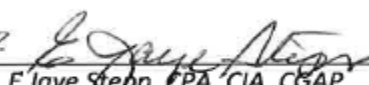
The Internal Audit Department is well managed internally. In addition, the Department has effective relationships with the agency head, and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit an integral part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency’s operations.

### ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Deputy Commissioner of Internal Audit, Internal Audit staff, the Deputy Land Commissioner and Chief Clerk, and the Deputy Commissioners who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Department and its relationship with management.

  
Karin Hill, CIA, CGAP, CRMA  
Chief Internal Auditor  
Texas Juvenile Justice Department  
SAIAF Peer Review Team Leader

6/25/2012  
Date

  
E. Jaye Stepp, CPA, CIA, CGAP  
Director of Internal Audit  
Texas School for the Blind & Visually Impaired  
SAIAF Peer Review Team Member

6/25/12  
Date





**GENERAL LAND OFFICE - INTERNAL AUDIT DEPARTMENT  
EXTERNAL QUALITY ASSURANCE REVIEW – June 2012**

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**BACKGROUND**

The Institute of Internal Auditors (IIA) *Standards for the Professional Practice of Internal Auditing*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (Act) require that internal audit functions obtain external quality assurance reviews to assess compliance with standards and the Act and to appraise the quality of their operations. Government auditing standards require these reviews at least every three years. A periodic external quality assurance review, or peer review, of the internal audit function is an essential part of a comprehensive quality assurance program. This quality assurance review was performed in accordance with State Agency Internal Audit Forum (SAIAF) Peer Review guidelines.

The most recent quality assurance review for the General Land Office Internal Audit Department was performed in May 2009. Since that time, leadership of the department has changed.

**OBJECTIVES, SCOPE, AND METHODOLOGY**

The primary objective of the quality assurance review was to evaluate the General Land Office Internal Audit Department's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvement may be needed. The review covered all completed audit and management assistance projects performed by the General Land Office Internal Audit Department from September, 2009 through August, 2011.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessment prepared by the Internal Audit Department according to SAIAF guidelines;
- Review and evaluation of surveys completed by management;
- Interviews with the Deputy Commissioner of Internal Audit, Internal Audit Department staff, the Deputy Land Commissioner/Chief Clerk, and ten Deputy Commissioners;
- Review and evaluation of audit working papers; and
- Review of Internal Audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

This peer review was performed in accordance with the State Agency Internal Audit Forum Peer Review Process.





## **V. Internal Audit Plan for Fiscal Year 2014**

<b>FY2014 AUDIT PLAN</b>			
<b>Audit Title</b>	<b>Program Area(s)</b>	<b>Division(s)</b>	<b>Projected Budget (Hrs)</b>
TAC 202 – Risk Assessment Process	Information Systems	Various	600
Performance Measures	Financial Management	Budget, Planning & Payroll Various	600
Veterans Homes – Quality Control Measures	Veterans Homes and Cemeteries Program	Veterans Homes	600
Contract Management Process	Disaster Recovery - Program	Disaster Recovery - Program	600
Procurement Card Management	Administration	Procurement	600
Buy Speed Online (BSO)	Administration Financial Management Information Systems	Procurement Cash Management Business and Training Services	600
Grant Contract Management	Professional Services	Construction Services	600
Investment Management	Funds Management	Funds Management	Contracted



## **FY2014 FOLLOW-UP REVIEWS**

<b>Audit Follow-Up Title</b>	<b>Program Area(s)</b>	<b>Division(s)</b>
Alamo Audit of Controls	Executive Administration	Alamo Administrative Services
Allowable Cost – Disaster Recovery Program	Disaster Recovery Program	Disaster Recovery Program
Business Continuity / Disaster Recovery	Administration	Special Projects
Coastal Resources (Grants Database/CIAP)	Coastal Resources	Grants Programs and Support
Federal Compliance	Administration	Administrative Services
Federal Cost Allocation	Financial Management	Budget & Planning Financial Reporting and Accounting
Fixed Assets	Administration	Administrative Services
Lease Sale Database Application	Information Systems	Business Automation Services
Payroll Process	Financial Management	Budget & Planning
Tyler Veterans Homes Construction	Professional Services	Construction Services
Type II Land Sales – Veterans Land Board	Veterans Land Board Veterans Land and Housing Program	Loan Operations
Veterans Homes Pharmacy	Financial Management	Financial Subsidiary Compliance



FY2014 FOLLOW-UP REVIEWS		
Audit Follow-Up Title	Program Area(s)	Division(s)
External Projects		
Comptroller Post Payment Audit	Financial Management	Budget & Planning
HNTB Corporation Processes	Disaster Recovery Program	Finance and Compliance



<b>FY 2014 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS</b>	
<b>Project Title</b>	<b>Program Area/Division</b>
Alamo Inventory Verification- DRT Library	Alamo Complex
Annual Risk Assessment and Internal Audit Plan	Internal Audit
Annual Report on Internal Audit (SAO)	Internal Audit
GLO Annual Report on Internal Audit	Internal Audit
Annual Report on the Internal Audit Quality Assurance and Improvement Program	Internal Audit
TeamMate Enhancement Project - TeamRisk	Internal Audit
Special Projects/Investigations	Internal Audit
Liaison for external audits and oversight entities.	Internal Audit
Management Assistance & Other	Internal Audit



## **FY 2014 RISK ASSESSMENT METHODOLOGY**

To perform the risk assessment for the 2014 Annual Audit Plan, auditable units were analyzed on twelve risk factors. The risk factors included: management controls, changes in organizational structure, complexity of operations, extent of government regulation, public exposure/sensitivity, prior audit coverage, information systems, extent of outsourcing, involvement with grants and grant management, budget, executive interest/concerns, strategic priority and potential for fraud.

Agency program areas and Internal Audit evaluated the auditable units on each of the risk factors; the results were broken into tiers, weighted, and sorted in descending order. This information was evaluated and considered by the Internal Audit, as well. The units with the highest scores were considered for inclusion in the annual audit plan.



## **VI. External Audit Services Procured in Fiscal Year 2013**

<b>FY 2013 EXTERNAL AUDIT SERVICES</b>	
<b>Service Provider</b>	<b>Scope of Work</b>
Weaver and Tidwell, LLP	Assistance with accounting and reporting of land investments.
MLHubbard, PLLC	Audit of four El Paso area rock producers on Public School Fund (PSF) land to determine if “fair market value” is properly used to calculate production royalties.
MLHubbard, PLLC	Audit of the State Power program regarding the accuracy of remittances made by Reliant and Cavallo to the State of Texas for fiscal year 2012 pursuant to contract obligations.
State Auditor’s Office	Audit of the Permanent School Fund (PSF)
U.S. Department of Housing and Urban Development	Monitor General Land Office’s performance of program objectives



## **VII. Reporting Suspected Fraud and Abuse**

<b>FRAUD AND ABUSE</b>	
In efforts to implement the fraud-related requirements of the General Appropriations Act and the Texas Government Code, the following has occurred:	
•	The Fraud Prevention training video conducted by Internal Audit was posted to the agency's Intranet website
•	The Fraud Prevention Policy is maintained on-line in the agency's Employee Handbook, which includes how, when and where to report possible fraud and abuse
•	The SAO hotline number, and a link to its website for reporting fraud is posted on the agency website
•	Signs about reporting fraud are posted throughout headquarters and field offices
•	Suggestions boxes are located outside Internal Audit and Human Resources to allow employees the opportunity to submit information anonymously
•	Staff attended fraud prevention and ethics training
•	Internal audit has written procedures for investigations which require that any fraud or abuse is reported to the SAO as well as any applicable Federal oversight entities.